

KANSAS DEPARTMENT OF CREDIT UNIONS

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ADMINISTRATOR'S BULLETIN

VOLUME SIX NUMBER ONE

June 5, 2000

CREDIT UNION COUNCIL NEWS

The Credit Union Council will meet on June 15, 2000 at 1:00 p.m. in the Kansas Department of Credit Unions Conference Room, 400 SW Kansas Ave., Suite B., Topeka, Kansas.

All credit union officials and staff are welcome to attend CU Council meetings, which are subject to the Kansas Open Meeting laws.

For those wishing to be on the agenda or speak to the Credit Union Council, please contact Jerel Wright, Administrator, (785-296-3021) or in writing at, 400 SW Kansas Ave. Suite B., Topeka, Kansas 66603.

DEPARTMENT NEWS

Valorie White, from Wichita, Kansas, has joined our examination staff as a Financial Examiner I. Valorie has a B.A. in Sociology from Kansas State Teachers College, Emporia, Ks. and attended Wichita State University, with course work in Public Administration. We are pleased that Valorie has joined our examination team.

KDCU was delayed in hiring Valorie for this position because the department was under a 90-day hiring freeze imposed on all state agencies by executive order of Governor Graves. The department is now back up to our full compliment of 12 employees.

Administrator Wright, Gail Kasson, and Jack Hohman recently attended the annual NCUA/NASCUS Regulators Conference held in Anaheim, California.

Warren Meyer, KDCU Financial Examiner V, and Russell Moore, NCUA Market Specialist

and Corporate Examiner presented a confidential briefing to other state regulators on the U.S. Central examination report during the NASCUS meetings. U.S. Central is the largest corporate credit union in the world and is examined in a joint effort by the KDCU and the NCUA.

State and federal regulators discussed issues and concerns related to state-chartered, federally insured credit unions. Topics included the Prompt Corrective Action regulation, NCUA's 5-year Strategic Plan, and fixed-rate, first mortgage loan portfolio concentrations.

PROMPT CORRECTIVE ACTION (PCA)

In 1998, Congress amended the Federal Credit Union Act to require the NCUA Board to adopt, by regulation, a system of "prompt corrective action" to be taken by NCUA for any undercapitalized federally-insured credit union.

The new regulation imposes progressively, more stringent restrictions and requirements indexed to net capital categories. The regulation distinguishes prompt corrective action for "new" credit unions and low-income credit unions. An additional risk-based net worth requirement for "complex" credit unions is also being proposed.

The regulation prescribes reserving requirements for those credit unions that meet the "complex" criteria as defined in the regulation.

The rule also establishes conforming reserve and dividend payment requirements, and procedures for reviewing and enforcing directives imposing prompt corrective action.

PROMPT CORRECTIVE ACTION **(CONTD)**

Depending on the size and amount of your net worth, a credit union may be placed into conservatorship or placed into liquidation.

The statutory timetable requires the final rule (except for "complex" credit unions) to be adopted by February 7, 2000 and take effect August 7, 2000.

In brief, each credit union is classified in one of five NET WORTH categories, ranging from Well Capitalized (7%) or above, to Critically Undercapitalized (under 2%).

The regulation mandates actions for credit unions in each net worth category under 7%. Actions may range from "earnings retention requirements" to "administrative action" depending on the credit union's net worth.

If you are experiencing negative earnings or your net capital ratios are declining; we urge you to begin discussion on these trends with the KDCU, now.

If you need additional information pertaining to the regulation or net worth requirement, please contact the Department.

KANSAS CREDIT UNION STATISTICS

During the last half of fiscal year ending 12/31/1999, most Kansas chartered credit unions' continued to experience normal asset growth of 4.79%. Loan growth was significantly higher than the previous six months at 5.2%.

The total shown for allowance for loan loss reflects a drop of \$1,147,613.00 from that shown in the previous six-month period.

The total equity (net capital) position of state-chartered credit unions stands at 12.24%. Net spreads have improved from the prior six-month period. The average return on assets was 0.9%.

EXAMINATION REPORTS

Each credit union, at the close of an examination, receives a management review and an exit conference with the examiner in charge. The examination report is prepared and mailed to the credit union at a later date.

The exit conference is scheduled during the same week or shortly thereafter. The examination report is a financial analysis that includes document of resolution items, findings, and general comments concerning your operation.

Credit union management and officials should view our comments and recommendations as tools to improve operations.

If you take exception to findings or recommendations, you may appeal the action to the Administrator. If you want to know more about the appeal process, please call our office.

RECORD RETENTION GUIDELINES **FOR Y2K TESTING DOCUMENTATION**

How long should the credit union keep the stack of documents from the Y2K testing?

Every credit union should retain their Business Resumption Contingency Plan and their Liquidity Plan as a part of the Business Recovery Contingency Plan required under Kansas Administrative Regulation 121-2-1.

The credit union Board of Directors, with advice of counsel, should determine the length of time to retain all documentation from the testing of the credit union systems.

Jerel Wright, Credit Union Administrator